

SHELBY COUNTY RETIREMENT SYSTEM

Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 2 - Plan description and contribution information (continued)

If a Plan C participant terminates employment between age 55 and 65 with between seven and one-half and 25 years of credited service, the participant is entitled to a monthly "early" retirement pension for life. Again, the amount of the early retirement pension is the higher of two calculated amounts similar to those used for calculating the normal retirement pension. Participants who terminate employment before age 55 are also entitled to benefits ultimately. Also, as in Plan A, deferred vested retirement pensions are required to be paid in the form of a lump sum if the actuarial value is \$20,000 or less.

Plan C provides survivor benefits for certain survivors, but it does not provide disability benefits.

At July 1, 2008 (the date of the latest actuarial valuation), SCRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,796
Terminated employees entitled to, but not yet receiving benefits	260
Active members	
Vested	3,773
Non-vested	<u>2,743</u>
Total	<u>9,572</u>

Contributions and funding policy

SCRS's funding policy for member contribution requirements is established by the Board. For fiscal years 2008 and 2007, the contribution requirements were based on the actuarially determined contribution rate.

The actuarially determined contribution rate was calculated using a projected unit credit service pro-rate cost method for both Plan A and Plan B participants.

The actuarial required employer contribution was \$12,956,023 for the year ended June 30, 2008. During the year ended June 30, 2008, actual employer contributions were \$18,744,136 and employee contributions were \$8,930,175. Actual employer contributions were approximately 7.08% of the related covered payroll costs. The actuarial required employer contribution is significantly impacted by the amortization of the actuarial surplus created from the investment results in prior years. The employer has chosen to fund a level amount that is approximately the normal cost for benefits earned.

During the year ended June 30, 2007, the employer contributions were \$18,758,647 which were 7.47% of the related covered payroll costs and the employee contributions were \$8,191,400.

The significant actuarial assumptions used to compute these actuarially determined contribution requirements are the same as those used to compute the pension benefit obligations.

SHELBY COUNTY RETIREMENT SYSTEM

Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 2 - Plan description and contribution information (continued)

Trend information

Six-year historical trend information designed to provide information about SCRS's progress made in accumulating sufficient assets to pay benefits when due is presented in the accompanying supplemental information.

Note 3 - Deposits and investments

The Administration and Trust Agreement of The Shelby County Retirement System (the "Trust Agreement") vests the Shelby County Retirement System Board of Administration (the "Board") with exclusive control over SCRS's investment portfolio. The Trust Agreement provides for specific investment authority and limitations in accordance with applicable state laws and county regulations. The Board members exercise their authority and control over investments solely in the interest of plan participants and beneficiaries. Additionally, the Board executes its policies with the aid of external investment advisors. The Trust Agreement generally provides that the Board may invest in the following:

- Bonds, notes or treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies.
- Certificates of deposit and other evidences of deposit at Tennessee or federally chartered financial institutions. The institutions must be federally insured.
- Obligations of the United States or its agencies under a repurchase agreement.
- Prime commercial paper which is rated at least A2 and issued by a corporation having no record of default of obligations during the ten (10) years preceding the investment.
- Prime bankers acceptances which are eligible for purchase by the Federal Reserve System.
- Corporate bonds rated B3 or better by Moody's or B- or better by Standard and Poor's.
- Common or preferred shares of stock in any entity listed on the New York Stock Exchange, American Stock Exchange or NASDAQ Stock Exchange or in American Depositary Receipts ("ADRs"). The total market value of ADRs and common or preferred shares of stock, calculated on a monthly basis, shall not exceed 70% of the total market value of the Trust Fund.
- Covered call and put options on individual stocks or indexes, with the prior approval of the Investment Committee.

SHELBY COUNTY RETIREMENT SYSTEM

Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 3 - Deposits and investments (continued)

- Financial futures contracts on a limited basis for bona fide hedging purposes and only with prior approval of the Investment Committee.
- Real estate including interests in real estate investment trusts, provided, however, that the total real estate investments of SCRS shall not exceed five percent (5%) of the total value of SCRS.
- International equities provided, however, that the total international investments of SCRS, excluding American Depository Receipts, shall not exceed thirty percent (30%) of the total value of SCRS.
- Co-mingled funds, including registered mutual funds and interests in collective trusts.
- Other investments, as approved individually by the Investment Committee, including securities offered through private placement memoranda.

Please refer to the Trust Agreement for a complete description of investment policies.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Duration is the measure of the price sensitivity of a fixed income portfolio to changes in interest rates. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. SCRS limits its exposure to interest rate risk by diversifying its investments by security type and institution.

The fair values of fixed income investments grouped by maturity at June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Current to one year	\$ 7,969,193	\$ 13,094,934
One to two years	6,510,674	5,040,097
Two to three years	10,186,124	8,519,437
Three to four years	8,302,821	14,900,852
Four to five years	4,576,440	10,771,089
Five or more years	<u>100,066,466</u>	<u>96,685,414</u>
	137,611,718	149,011,823
Funds with indeterminable maturities	<u>30,104,262</u>	<u>28,089,692</u>
	<u>\$ 167,715,980</u>	<u>\$ 177,101,515</u>

SHELBY COUNTY RETIREMENT SYSTEM

Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 3 - Deposits and investments (continued)

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To control credit risk, credit quality guidelines have been established. Investment parameters as established by the Trust Agreement and the Investment Committee are summarized on pages 11 and 12. There are no restrictions on U.S. Government or Agency issues.

The System's exposure to credit risk at June 30, 2008 and 2007 is presented below by investment category as rated by Standard and Poor's rating service.

Type of Investment	2008 Fair Value	2007 Fair Value	Ratings
Government bonds	\$ 26,846,989	\$ 51,199,227	AAA
	7,026,666	6,715,106	A
	3,591,221	-	BBB
	450,835	4,971,989	BB
	6,807,723	7,479,053	Non-rated
Non government backed CMOS	9,392,837	1,911,797	AAA
	430,001	-	AA
	185,790	-	A
	5,262,669	778,192	Non-rated
Asset backed securities	182,727	382,000	AA
	762,825	3,582,240	A
	1,504,380	3,680,386	BBB
	319,285	51,993	BB
	1,138,584	-	B
	318,588	-	CCC
	33,345	-	CC
	4,113	-	D
	427,888	1,393,612	Non-rated
Commercial mortgage backed securities	-	262,249	A
	-	243,247	Non-rated
Corporate bonds	2,242,617	2,520,342	AAA
	7,945,305	3,092,407	AA
	13,887,588	12,057,092	A
	13,528,877	9,827,967	BBB
	1,904,937	2,023,643	BB
	10,000	-	D
	5,155,993	3,439,665	Non-rated

SHELBY COUNTY RETIREMENT SYSTEM

Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 3 - Deposits and investments (continued)

Type of Investment	2008 Fair Value	2007 Fair Value	Ratings
Government agencies	\$ 18,413,397 2,312,126 1,013,000 795,328	\$ 17,830,370 4,037,393 - -	AAA AA BBB Non-rated U.S. Government Guaranteed
	-	274,626	
Municipal provincial bonds	873,369 1,531,341	3,323,950 1,513,945	AAA AA
Government mortgage backed securities	3,311,374	3,293,284	U.S. Government Guaranteed
Commercial paper	-	2,846,006	Non-rated
Other fixed income fund	<u>30,104,262</u>	<u>28,369,734</u>	Non-rated
Total fixed income	<u>\$ 167,715,980</u>	<u>\$ 177,101,515</u>	

Foreign currency risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The System's exposure to foreign currency risk in US Dollars as of June 30, 2008 is as follows:

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Austrailian dollar	\$ 1,048,040	\$ 7,890,367	\$ 873,369	\$ -	\$ 9,811,776
Brazilian real	-	3,591,221	-	-	3,591,221
British pound sterling	11,086,636	5,455,984	-	-	16,542,620
Canadian dollar	10,709,104	2,466,168	-	-	13,175,272
Danish krone	6,596,744	-	-	-	6,596,744
Euro	39,957,701	-	-	-	39,957,701
Hong Kong dollar	8,603,746	-	-	-	8,603,746
Iceland krona	-	1,653,125	-	-	1,653,125
Indonesian rupiah	-	1,784,107	-	-	1,784,107
Japanese yen	11,191,086	-	-	-	11,191,086
Malaysian ringgit	-	5,538,116	-	-	5,538,116

SHELBY COUNTY RETIREMENT SYSTEM

Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 3 - Deposits and investments (continued)

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Mexican peso	\$ 2,279,266	\$ 3,900,591	\$ -	\$ -	\$ 6,179,857
New Zealand dollar	-	310,057	3,055,898	-	3,365,955
Norwegian krone	-	1,063,528	-	-	1,063,528
Singapore dollar	-	5,269,574	-	-	5,269,574
South African rand	-	3,062,410	-	-	3,062,410
Swedish krona	1,896,412	3,035,583	-	-	4,931,995
Swiss franc	14,260,512	-	-	-	14,260,512
Total securities subject to foreign currency risk	107,629,247	45,020,831	3,929,267	-	156,579,345
International portfolio in U.S. dollars	51,721,483	1,013,000	35,697,224	81,674,173	170,105,880
Total international securities	<u>\$159,350,730</u>	<u>\$46,033,831</u>	<u>\$39,626,491</u>	<u>\$81,674,173</u>	<u>\$326,685,225</u>

The System's exposure to foreign currency risk in US Dollars as of June 30, 2007 is as follows:

Currency	Equities	Government Bonds and Agencies	Other Fixed Income	Hedge Funds	Total
Austrailian dollar	\$ -	\$ 6,158,510	\$ 3,323,950	\$ -	\$ 9,482,460
Brazilian real	-	4,101,506	-	-	4,101,506
British pound sterling	19,729,651	5,980,152	-	-	25,709,803
Canadian dollar	6,573,494	4,010,129	975,628	-	11,559,251
Danish krone	3,563,718	-	-	-	3,563,718
Euro	31,453,183	9,934,397	-	-	41,387,580
Hong Kong dollar	16,132,552	-	-	-	16,132,552
Indonesian rupiah	-	2,694,712	-	-	2,694,712
Japanese yen	13,963,922	-	-	-	13,963,922
Malaysian ringgit	-	4,227,254	-	-	4,227,254
Mexican peso	4,603,040	4,056,371	-	-	8,659,411
New Zealand dollar	-	-	3,055,638	-	3,055,638
Singapore dollar	-	6,110,496	-	-	6,110,496
South African rand	-	4,086,305	-	-	4,086,305
South Korean won	2,945,345	-	-	-	2,945,345
Swedish krona	-	3,366,501	-	-	3,366,501
Swiss franc	12,376,312	-	-	-	12,376,312
Total securities subject to foreign currency risk	111,341,217	54,726,333	7,355,216	-	173,422,766
International portfolio in U.S. dollars	53,791,258	-	33,680,369	77,511,281	164,982,908
Total international securities	<u>\$165,132,475</u>	<u>\$54,726,333</u>	<u>\$41,035,585</u>	<u>\$77,511,281</u>	<u>\$338,405,674</u>

SHELBY COUNTY RETIREMENT SYSTEM

Notes to Financial Statements (Continued)
June 30, 2008 and 2007

Note 3 - Deposits and investments (continued)

Custodial credit risk - deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution's failure, SCRS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. As of June 30, 2008 and 2007, cash and cash equivalent deposits totaling \$910,090 and \$2,880,992, respectively, were exposed to custodial credit risk because they were uninsured or uncollateralized. The remaining cash and cash equivalent deposits were insured by the Federal Deposit Insurance Corporation (FDIC) or were collateralized by SCRS's participation in a multiple-financial institution collateral pool.

Custodial credit risk, securities lending - investments

SCRS has authorized its custodial agent to enter into, on behalf of SCRS, securities lending transactions comprised of loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Initial collateral, consisting of cash and securities must not be less than 102% of the market value of the borrowed securities or not less than 105% if the borrowed securities and collateral are denominated in different currencies. The borrower is required to deliver additional collateral when necessary so that the total collateral held by the custodial agent for all loans to the borrower will at least equal the market value of all the borrowed securities. Investment securities loaned for collateral totaled \$165,903,498 at June 30, 2008. At June 30, 2008, investment securities were registered in the name of SCRS, loaned for collateral received, or not subject to custodial risk classification.

SUPPLEMENTAL INFORMATION

SHELBY COUNTY RETIREMENT SYSTEM

Required Supplementary Information
For the Year Ended June 30, 2008

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability/ (Surplus)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability/ (Surplus) as a Percentage of Covered Payroll
2002	\$ 797,091,379	\$ 720,839,196	\$ (76,252,183)	110.6 %	\$ 233,148,476	(32.7)%
2003	\$ 794,201,990	\$ 769,753,615	\$ (24,448,375)	103.2 %	\$ 237,197,193	(10.3)%
2004	\$ 841,335,004	\$ 737,329,388	\$(104,005,616)	114.1 %	\$ 246,685,081	(42.2)%
2005	\$ 885,049,492	\$ 780,800,809	\$(104,248,683)	113.4 %	\$ 253,031,826	(41.2)%
2006	\$ 933,730,481	\$ 860,178,582	\$ (73,551,899)	108.6 %	\$ 241,403,735	(30.5)%
2007	\$ 992,143,395	\$ 934,829,366	\$ (57,314,029)	106.1 %	\$ 251,059,875	(22.8)%
2008	\$1,040,514,476	\$1,000,475,305	\$ (40,039,171)	104.0 %	\$ 264,640,554	(15.1)%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage
2002	\$ 12,313,480	100.0 %
2003	\$ 12,313,480	100.0 %
2004	\$ 17,836,157	100.0 %
2005	\$ 9,645,830	194.9 %
2006	\$ 10,322,629	182.2 %
2007	\$ 11,037,956	169.9 %
2008	\$ 12,956,023	145.0 %

SHELBY COUNTY RETIREMENT SYSTEM

Required Supplementary Information (Continued) For the Year Ended June 30, 2008

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	July 1, 2006 for contribution requirement July 1, 2007 rolled forward to June 30, 2008 for funding progress
Actuarial cost method	Projected unit credit service pro-rate cost method
Amortization method	20-year amortization as of July 1, 2006 of increase in obligation due to Plan C and 17- year amortization as of July 1, 2006 of remaining surplus (20 year period beginning July 1, 2003). Amortizations are based on the level dollar method and the periods are closed. The equivalent single amortization period is 15 years.
Remaining amortization period	15 years on June 30, 2008
Asset valuation method	10-year smoothing method
Rate of investment return	Funding progress: 8.25% Contribution: 8.25%
Projected salary increases	Graded salary scale (3.00% to 8.50%) Contribution: 4.00%
Cost-of-living adjustments	Funding progress: 2.50% Contribution: 2.50%

Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing*
Standards

To the Chairman and Members of the Shelby County
Retirement System Board of Administration
Memphis, Tennessee

We have audited the financial statements of the Shelby County Retirement System, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County Retirement System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shelby County Retirement System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Shelby County Retirement System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Shelby County Retirement System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Shelby County Retirement System's financial statements that is more than inconsequential will not be prevented or detected by Shelby County Retirement System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Shelby County Retirement System's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shelby County Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Shelby County Retirement System Board of Administration, management, others within the organization, Shelby County Government, and the State of Tennessee and is not intended to be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Thompson Dunavant LLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
October 29, 2008